INDIANA UTILITY REGULATORY COMMISSION
NATURAL GAS FORUM PRESENTATION
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OHIO VALLEY GAS, INC.

Mr. Chairman and Fellow Commissioners, IURC Staff, and others gathered here today.

Thank you for the opportunity to address this Forum and speak to what Ohio Valley Gas has underway for the coming winter heating season.

My name is Lloyd M. Spencer. I am Vice President and General Manager of Ohio Valley Gas Corporation and Ohio Valley Gas. Inc.

We serve approximately 31,000 customers in sixteen counties of Indiana located in eastern, southeastern, southern, southwestern, and western Indiana and serve fifty-eight communities within those counties.

I have been involved with the preparation and filing of GCAs since their inception in 1983.

I have been responsible for the entire GCA filing process the past twelve years.

I have been involved in the regulatory process my entire thirty-eight year career in the utility industry, as well as performing other responsibilities.

My educational background is accounting and finance.

First, what has Ohio Valley Gas been doing in the recent past?

1. From the implementation of FERC Order No. 636 on November 1, 1993 through April 1997, Ohio Valley Gas negotiated contracts with natural gas suppliers for its system supply natural gas requirements using a pricing arrangement that was based upon the applicable Index Price from the first monthly posting of the publication *Inside F.E.R.C.'s Gas Market Report (commonly referred to as Inside FERC Index).*

2. In late 1996, Ohio Valley Gas was faced with escalating natural gas prices reaching levels not before seen. The sudden escalation started in November 1996 and continued through February 1997. Subsequently, Ohio Valley Gas reviewed its purchasing practices and adjusted its policy of acquiring its system supply natural gas requirements under the Index Price method.

3. In May 1997, Ohio Valley Gas started purchasing approximately seventy percent of its system supply natural gas requirements under a fixed-price arrangement. It was believed at that time that seventy percent of the system supply natural gas requirements would meet the needs under a normal winter weather pattern. Subsequently, we learned in the 1999-2000 winter heating season (probably the warmest on record in many of the service areas) that the seventy percent

figure was a little too high. The balance of the system supply natural gas requirements would continue to be purchased under the Index Price method.

4. We also established a guideline wherein the fixed-price arrangement would be timely executed to allow for the inclusion of the fixed-price arrangement in the applicable Gas Cost Adjustment or GCA quarterly filings.

5. That provided us with a lesser degree of volatility in the variance mechanism of the GCA reconciliation and reduced the swings from GCA to GCA.

6. It also allowed us to provide our customers a more stable GCA factor and thus avoid unnecessary swings in the factor from GCA to GCA.

7. For the most part, the plan has accomplished our intended mission.

8. While there were times when the fixed price was greater than the index price, overall the plan has provided our customers with significant savings as well as providing a more stable GCA factor environment and a reduction in the degree of swings in the variance mechanism.

9. In 1999, we further refined the policy to purchase the seventy percent in two pieces of approximately thirty-five percent.

10. The actual percentages will vary since we must purchase in multiples of 10,000 Dekatherms (the trading standard adopted by the NYMEX for natural gas futures).

11. Recently, we have made further refinements to the policy whereby we are purchasing more than the seventy percent level in some of the summer months.

12. During certain months of the seven-month summer period (April through October), we know that any gas not sold to customers can be injected into storage within reasonable limits.

13. In the later stages of storage refill, ratcheting reduces our total injection capabilities and removes some of the flexibility in the purchasing cycle.

14. Also, some contracts do not allow for direct injection into storage of excess flows without a prior day nomination. That requires us to monitor the situation on a daily basis.

15. In mid-2000 we purchased an E-mail subscription to the publication *Gas Daily*. This provides us with valuable information on the changing conditions within the natural gas industry in a timely manner. We also continue to monitor the natural gas industry through other timely resources, including *The Wall Street Journal*, the AGA, the EIA, and DOE.

<u>Second, what plans does the Ohio Valley Gas have in place for the winter heating season of 2001-2002?</u>

1. On May 4, 2001, we executed a fixed-price arrangement for an estimated thirty-five percent of our anticipated system supply natural gas requirements from the supply or production area (South Louisiana or western Kansas) for a normal degree day period from November 2001 through October 2002. The price range for this purchase is $4.4390/Dth to $5.1850/Dth, depending upon the month, the receipt point, and the transport pipeline.

2. On May 10, 2001, we executed another fixed-price arrangement for an estimated thirty-five percent of our anticipated system supply requirements from the supply or production area for a normal degree day period for the months of November 2001 through April 2002. The price range for this purchase is $4.2350/Dth to $4.8650/Dth, again depending upon the month, the receipt point, and the transport pipeline.

3. Therefore, at this point Ohio Valley Gas has in place fixed-price arrangements for approximately seventy percent of its anticipated system supply requirements from the supply or production area for the months of November 2001 through April 2002.

4. As of June 30, 2001, our storage refill for the 2001 summer period was in line with our planned refill schedule and should be completed within the allotted time at October 31, 2001.

5. We are currently investigating the possibility of purchasing a "call" to further allow us to establish a potential for a firm price in advance of the establishment of a Index Price.

6. If we are able to purchase a "call" at the appropriate price, that could further stabilize our GCA filings and hopefully reduce the variance swings which impact future GCA factors.

7. For the period of November 2001 through January 2002, our GCA factor will probably include a variance for under recoveries from prior periods of $.39/Dth to $1.04/Dth, depending upon the service area in which the customer's premises are located.

8. For the period of November 2001 through January 2002, our GCA factor will probably include an overall cost of natural gas ranging from $5.40/Dth to $5.56/Dth, again depending upon the service area in which the customer's premises are located.

<u>Third, what concerns or problems exist now or may exist in the future?</u>

1. **<u>Budget (Level) Payment Plan.</u>**

I believe that our practice of rolling ahead under collections in our Budget (Level) Payment Plan and incorporating them into the monthly payment for the ensuing twelve months that was in effect from 1975 to 2000, twenty-five years, better served our customers than the recently mandated rules (as part of the GCA68 orders issued in October 2000) requiring under collections greater than fifty percent of the current monthly payment to be spread over the next five months.

We have fielded numerous complaints the past four weeks from Plan customers who are unhappy with the way their budget arrearage has been handled.

During the period of July 1, 2000 through June 30, 2001, we have seen an increase of 30.88% of the number of customers electing to be on the Plan. That represents approximately 17.50% of our residential heating customer base.

2. **Energy Assistance Program.**
The energy assistance program in my estimation needs changes. The numerous offices selected to administer the program in the sixteen counties that we provide natural gas service appeared to be under staffed and unable to respond to the needs of eligible customers within our service territory in a timely manner. In late November and early December 2000, it was fairly common to hear potentially eligible customers saying our customer service representative that they could not get an appointment with the applicable energy assistance office until late February or early March.

Since the moratorium starts December 1, the applicable utility needs to know what customers are eligible for energy assistance within days of December 1 and not in February and March. Ohio Valley Gas generally has not honored the moratorium until proof from the energy assistance agency is received.

A total of 1,733 households (approximately 6.50% of our total residential heating customers) received some energy assistance this past winter heating season.

The assistance received represented approximately twenty-five percent of their annual heating costs.

4. **Ohio Valley Gas Gas Help Fund.** Ohio Valley Gas started its Gas Help Fund in 1982 and has continued to assist those customers in need with financial assistance throughout the year. The Gas Help Fund is funded by donations within the communities served and matched dollar for dollar by the shareholders of Ohio Valley Gas.

5. **Impact on bad debt expense and outstanding receivables.**
Projecting the 2001 bad debt expense on the basis of the year 1999 and year 2000 bad expense yields us an indication that our year 2001 bad debt expense will triple.

Our June 30, 2001 outstanding accounts receivable balances are 180 percent of the balance of one year earlier.

6. **Pipeline operational problems.**

No major problems were encountered in our service area during the 2000-2001 winter heating season. Likewise, we do not expect to encounter any in the coming winter heating season.

The liquids issues appear to have been adequately addressed by the two pipelines serving our territory. We did experience some liquid build-up in our Pike, Sullivan, and Vigo County systems during January 2001.

Most of the problems pertained to those stations served from storage laterals rather than the main pipeline. At this time, I am available for Q&As.